

REBUTTAL TESTIMONY

of

DANIEL G. KAHLE

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Northern Illinois Gas Company
d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

October 23, 2008

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SCHEDULES

- Schedule 14.01 - Statement of Operating Income with Adjustments
- Schedule 14.02 - Adjustments to Operating Income
- Schedule 14.03 - Rate Base
- Schedule 14.04 - Adjustments to Rate Base
- Schedule 14.05 - Interest Synchronization Adjustment
- Schedule 14.06 - Gross Revenue Conversion Factor
- Schedule 14.07 - Adjustment to Cash Working Capital

ATTACHMENT

- Attachment A - Company Explanation of increases to Customer Accounts Expense

1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Daniel G. Kahle. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. Have you previously filed testimony in this proceeding?

6 A. Yes, my direct testimony was filed as Staff Ex. 1.0 on August 27, 2008.

7 Purpose of Rebuttal Testimony

8 Q. What is the purpose of your rebuttal testimony in this proceeding?

9 A. The purpose of my rebuttal testimony is to:

- 10 1. Present the Staff adjusted operating statements and rate base of Northern
11 Illinois Gas Company (“Company” or “Nicor Gas”);
12 2. Respond to the rebuttal testimony of the Company’s witness Michael J.
13 Adams (Co. Ex. 23.0) relating to the treatment of pass-through taxes in the
14 calculation of Cash Working Capital (“CWC”); and
15 3. Respond to an adjustment to the Company’s Customer Records and
16 Collections Expenses proposed by AG/CUB witness Effron.

17 Schedule Identification

18 Q. Are you sponsoring any schedules as part of your rebuttal testimony, Staff Ex.
19 14.0?

20 A. Yes. I am sponsoring the following schedules, which show data as of, or for the
21 test year ending, December 31, 2009:

22 Schedule 14.01 - Statement of Operating Income with Adjustments

- 23 Schedule 14.02 - Adjustments to Operating Income
- 24 Schedule 14.03 - Rate Base
- 25 Schedule 14.04 - Adjustments to Rate Base
- 26 Schedule 14.05 - Interest Synchronization Adjustment
- 27 Schedule 14.06 - Gross Revenue Conversion Factor
- 28 Schedule 14.07 - Adjustment to Cash Working Capital

29 Q. Are you including any attachments to your testimony, Staff Ex. 14.0?

30 A. Yes. I am including the attachment:

31 Attachment A - Company Explanation of Increases to Customer Accounts
32 Expense

33 Revenue Requirement Schedules

34 Q. Please describe Staff Ex. 14.0, Schedule 14.01, Statement of Operating Income
35 with Adjustments.

36 A. The description of Schedule 14.01 is the same as for Schedule 1.01 which is
37 described in my direct testimony, except that Schedule 14.01 incorporates the
38 Company's rebuttal positions described in Co. Ex. 26.1 and Staff's rebuttal
39 positions.

40 Q. Please describe Staff Ex. 14.0, Schedule 14.02, Adjustments to Operating
41 Income.

42 A. This schedule identifies Staff's adjustment to Operating Income. The source of
43 each adjustment is shown in the heading of each column. Column (q) from page
44 2 of 2 is carried forward to Staff Ex. 14.0, Schedule 14.01, Column (c).

45 Q. Please describe Staff Ex. 14.0, Schedule 14.03, Rate Base.

46 A. The description of Schedule 14.03 is the same as for Schedule 14.03 which is
47 described in my direct testimony, except that Schedule 14.03 incorporates the
48 Company's and Staff's rebuttal positions.

49 Q. Please describe Staff Ex. 14.0, Schedule 14.04, Adjustments to Rate Base.

50 A. Schedule 14.04 identifies Staff's adjustments to rate base. The source of each
51 adjustment is shown in the heading of each column. Column (i) from page 1 of 1
52 is carried forward to Staff Ex. 14.0, Schedule 14.03, Column (c).

53 Interest Synchronization

54 Q. Please explain Staff Ex. 14.0, Schedule 14.05, Interest Synchronization
55 Adjustment.

56 A. Schedule 14.05 uses the same concept as Staff Ex. 1.0, Schedule 1.05. The
57 theory is discussed at page 4 of my direct testimony.

58 Gross Revenue Conversion Factor

59 Q. What is the purpose of Staff Ex. 14.0, Schedule 14.06, Gross Revenue
60 Conversion Factor?

61 A. Schedule 14.06 uses the same concept as Staff Ex. 1.0, Schedule 1.06. The
62 theory is discussed at page 5 of my direct testimony. Staff witness Hathorn
63 addresses the appropriate treatment of the invested capital tax and the
64 appropriate projected test year uncollectibles expense percentage in her
65 testimony in Staff Ex. 15.0.

66 Cash Working Capital

67 Q. Please describe Staff Ex. 14.0, Schedule 14.07, Adjustment to Cash Working
68 Capital.

69 A. Schedule 14.07 presents Staff's adjustments to CWC based on my calculation of
70 CWC using the Gross Lag methodology. These Schedules incorporate Staff's

71 adjustments to the Company's adjusted operating revenues and expenses
72 described in its rebuttal testimony in Co. Ex. 26.1. Page 1 of Schedule 14.07
73 shows the appropriate level of CWC required by the Company and the
74 adjustment required to reach the appropriate level of CWC required by the
75 Company.

76 Uncontested Issues

77 Q. Please identify the recommendations or issues contained or identified in your
78 direct testimony that are not contested by the Company.

79 A. The rebuttal testimony of Michael J. Adams (Co. Ex. 23.0, p. 1) indicates that the
80 Company is in agreement with my use of 50.81 days as the lag for revenue and
81 the inclusion of Energy Assistance Charges as a pass-through tax in the CWC
82 calculation.

83 Q. Are there any other staff adjustments that are not contested by the Company?

84 A. Yes. The following adjustments were accepted by the Company and are
85 therefore included in the Company's beginning rebuttal position numbers in Staff
86 Schedules 14.1 (Operating Statement) and 14.3 (Rate Base).

87 1. Schedule 3.03 – Adjustment for Office Supplies & Expenses

88 2. Schedule 3.04 – Adjustment for Membership Dues

89 3. Schedule 3.05 – Adjustment for Environmental Costs

90 4. Schedule 4.03 – Adjustment for Property Taxes

91 5. Schedule 4.04 – Adjustment for CWIP

92 Q. Did the Company accept any adjustments from Intervener direct testimony?

93 A. Yes. An adjustment to income tax expense, proposed by AG/CUB witness Effron
94 (AG/CUB Ex. 1.0, pp. 26-27), was accepted by the Company, and Staff has no

95 objection to the adjustment; therefore, it is also included in the Company's
96 beginning rebuttal position numbers in Staff Schedule 14.1 (Operating
97 Statement).

98 Using Revenue Lag Days of Zero for Pass-Through Taxes

99 Q. Has the rebuttal testimony of the Company's witness Michael J. Adams caused
100 you to change your position on using revenue lag days of zero for pass-through
101 taxes?

102 A. No.

103 Q. On page 8 of his rebuttal testimony, Mr. Adams states that there is no separate
104 source of revenue for pass-through taxes. Do you agree?

105 A. No. First, there cannot be a "revenue source" for the collection of pass-through
106 taxes since they are not revenue. The Company does not include pass-through
107 taxes in its operating revenue. While Mr. Adams, on page 8 of his rebuttal
108 testimony, speaks of recovering pass-through taxes, the Company is recovering
109 nothing in regard to pass-through taxes. The Company is acting as a collection
110 agency for the taxing authorities. In theory, the taxing authorities could collect
111 the taxes in some other manner. This theoretical change would have no effect
112 on the Company's operating revenues or expenses since pass-through taxes are
113 not included in the Company's revenue requirement. The only effect this
114 theoretical change would have is that the Company would no longer be holding
115 the ratepayers funds collected for pass-through taxes until those funds were
116 remitted to the appropriate taxing bodies.

117 Second, the Company identified the sources of funds for pass-through taxes in
118 its responses to a series of data requests (“DR”) (DGK-2.01, DGK-2.04, DGK-
119 2.06, DGK-9.05 and DGK-9.07). The Company collects pass-through taxes by
120 adding them onto ratepayer bills. The ratepayers remit the funds for pass-
121 through taxes along with their payments for utility services. The method by which
122 the Company collects pass-through taxes does not mean that pass-through taxes
123 and revenue have the same source. Revenue is collected from the ratepayers
124 through rates, and pass-through taxes are collected from the ratepayers through
125 add-on to their monthly bill. The form by which the Company collects pass-
126 through taxes does not change the substance of the matter. The source of
127 operating revenue is base rates. The sources of pass-through taxes collected
128 are add-ons to the ratepayers’ bills.

129 Q. On page 5 of his rebuttal testimony, Mr. Adams states that it is incorrect to
130 presume that the Company has access to the ratepayer supplied funds for pass-
131 through taxes. Do you agree?

132 A. No. The Company’s description of its process for collecting pass-through taxes
133 from ratepayers and remitting the taxes to the appropriate authority indicates that
134 the Company does have access to these funds.

135 The IL Public Utility Tax is collected from the ratepayers monthly,
136 but remitted to the taxing authority quarterly (Co. Resp. to Staff DR
137 DGK-2.04).

138 The Gross Receipts/Municipal Utility Tax is collected during one
139 month and generally paid to municipalities by the end of the
140 following month (Co. Resp. to Staff DR DGK-2.06).

141 The Illinois Gas Use tax return is due monthly to the state based on
142 the taxes collected during the month (Co. Resp. to Staff DR DGK-
143 9.05).

144 The Illinois Gas Revenue tax return is due monthly to the state
145 based on the taxes collected during the month (Co. Resp. to Staff
146 DR DGK-9.07).

147 Energy Assistance Charges are paid by the 20th day following the
148 end of the month (Co. Resp. to Staff DR DGK-2.01).

149 In each of these instances, the Company describes a process by which the
150 Company receives funds from ratepayers and then holds the funds until the
151 Company remits the funds to the appropriate authority.

152 Q. Do you agree that revenue lag days should be applied to pass-through taxes?

153 A. No. Pass-through taxes are not revenue. The Company appropriately made
154 adjustments to remove pass-through taxes from operating income. The
155 elimination was appropriate because the Company does not associate any
156 operating expense with pass-through taxes; therefore, investors are not providing
157 financing related to pass-through taxes. While it is true that ratepayers include
158 their payment of pass-through taxes with their payment for service, the method of
159 remittance does not change pass-through taxes into revenue. As the Company
160 incurs operating expenses, there can be a lag (revenue lag) in collecting
161 operating revenue to recover operating expenses. CWC is calculated and added
162 to rate base to allow investors to recover the cost of financing operating
163 expenses until operating revenue is collected. The Company does not incur a
164 pass-through tax expense; therefore, there is no recovery with which to associate
165 a revenue lag.

166 Q. Do pass-through taxes meet the Company's definition of an item which has a
167 revenue lag?

168 A. No. In his direct testimony (Co. Ex. 8.0, p. 4), Mr. Adams defines revenue lag as
169 the time between the date customers receive service and the date that
170 customers' payments are available to the utility. The payment of pass-through
171 taxes is not related to receipt of service and do not meet the Company's
172 definition of revenue lag.

173 Q. On page 5 of his rebuttal testimony, Mr. Adams calculates the time that the
174 Company has access to funds for IL Public Utility Taxes as about 11 days. Do
175 you agree with his calculation?

176 A. No. The Company's response to Staff DR DGK-2.04 states that taxes are
177 included on the customer's monthly bill and that the tax is paid to the state in
178 quarterly installments which are due no later than the 10th day of the month
179 following each quarter-end.

180 Q. On page 6 of his rebuttal testimony, Mr. Adams claims that the Company pays
181 Gross Receipts/Municipal Utility Taxes prior to receiving the funds from
182 ratepayers. Do you agree with his claim?

183 A. No. The Company's response to Staff DR DGK-2.06 states that taxes collected
184 during one month are generally paid to municipalities by the end of the following
185 month.

186 Q. On page 6 of his rebuttal testimony, Mr. Adams claims that the Company pays
187 Energy Assistance Charges prior to receiving the funds from ratepayers. Do you
188 agree with his claim?

189 A. No. The Company's response to Staff DR DGK-2.01 states that Energy
190 Assistance Charges are paid by the 20th day following the end of the month for
191 which they are being charged.

192 Q. On page 6 of his rebuttal testimony, Mr. Adams concludes that approximately 99
193 percent of the pass-through taxes are paid by the Company before the funds are
194 received from ratepayers. Do you agree with his conclusion?

195 A. No. The Company's description of its process for collecting pass-through taxes
196 from ratepayers and remitting the taxes to the appropriate authority shows the
197 opposite is true. The Company collects funds for pass-through taxes from
198 ratepayers and then later remits those funds to the appropriate taxing authority.
199 Mr. Adams reaches his conclusion by inappropriately applying revenue lag days
200 to items which are not revenue. Since pass-through taxes are not payments for
201 the provision of service, the Company cannot have a lag from the time operating
202 expenses are paid out to provide service to the time revenue is collected from
203 ratepayers to relieve the investors' burden of financing operating expenses.
204 Investors do not provide financing related to pass-through taxes and should not
205 receive the benefit of a return on rate base through additional CWC from funding
206 supplied by ratepayers.

207 Q. Mr. Adams noted, on pages 8 – 9 of his rebuttal testimony that similar
208 adjustments regarding revenue lag for pass-through taxes were rejected in two
209 previous rate cases. Do you have any comments regarding those two previous
210 rate cases?

211 A. Yes. First, a decision in a previous rate case is no reason to ignore the facts in
212 this proceeding. Second, there is no reason to assume that this Company
213 operates in the same manner as any other utility.

214 As Mr. Adams notes in The Peoples Gas Light and Coke Company and North
215 Shore Gas Company rate cases, Docket Nos. 07-0241/07-0242 (Cons.), Staff did
216 not address this issue until its Reply Brief on Exceptions. The Commission did
217 not have the analysis it desired to fully consider the issue as it noted in its Order
218 (Order, Docket Nos. 07-0241/07-0242 (Cons.), February 5, 2008, p. 22).

219 In the Ameren Companies' rate cases, Docket Nos. 07-0585/07-0586/07-
220 0587/07-0588/07-0589/07-0590 (Cons.) ("Ameren Rate Case"), the Commission
221 was not presented with the type of information contained in the Company's
222 responses to various Staff data requests in this proceeding. In the Ameren Rate
223 Case, the Commission could not consider the results of the analysis of such
224 information in its decision making as it can in this proceeding.

225 Q. Did you note anything else related to CWC calculation in the Ameren Rate Case?

226 A. Yes. In the Ameren Rate Case, an adjustment to include capitalized payroll in
227 the CWC calculation was rejected, even though an identical adjustment had been
228 accepted in the previous Ameren Companies' rate cases (Order, Docket Nos. 06-

229 0070, 06-0071 and 06-0072 (Cons.), November 21, 2006, p. 36). I note this
230 because Mr. Adams implies that the Commission should assess the merits of an
231 adjustment in a current case based on a decision in a previous rate case. The
232 Ameren Rate Case which Mr. Adams referenced is an excellent example of the
233 Commission considering new information presented in a proceeding on its own
234 merit rather than repeating the decisions reached in previous cases.

235 Q. Did you make any revisions to your CWC calculation in Schedule 14.07?

236 A. Yes. I deleted ECR Revenues (Coal Tar) from page 2 because the Company
237 would have eliminated the related expenses from operating expenses when
238 eliminating the coal tar revenues. I deleted Other Revenue from page 1 of 3
239 because it was already included in Total Operating Revenues in page 2. I added
240 an amount for Energy Assistance Charges to Total Receipts on page 1 to reflect
241 the addition of Energy Assistance Charges to Total Outlays. I eliminated the
242 deduction of pass-through taxes from Base Rates Revenues on page 1 since the
243 Company had not included pass-through taxes in base rate revenues on its
244 Schedule C-1.

245 Q. On page 3 of his rebuttal, Mr. Adams takes issue with the levels of revenues and
246 expenses in your CWC calculation. How do you respond to that?

247 A. First, before the appropriate CWC requirement is determined, the final level of
248 revenues and expenses will need to be adjusted based on the final revenue
249 requirement approved in this proceeding. Second, Mr. Adams presents no basis
250 other than his own opinion to support the claim that revenues and expenses must

251 be in balance in a CWC calculation. In fact, CWC determinations made by the
252 Commission in two of the most recent three rate cases have been based on
253 analyses in which revenue and expenses were not equal. Docket Nos. 07-
254 0241/0242 (Cons.) and Docket No. 07-0507 had revenue not equal to expenses,
255 while Docket Nos. 07-0585/0590 (Cons.) had revenues equal to expenses.

256 Customer Record and Collections Expenses

257 Q. Did you consider the Company's Customer Records and Collections Expenses
258 forecasted for the test year?

259 A. Yes. I discussed the Company's forecasted level of Customer Records and
260 Collections Expenses for the test year with Nicor Gas representatives during a
261 field visit to the Company's Naperville office. As a result of that discussion, I
262 received a detail report of the accounts (Attachment A) that comprised the
263 forecasted level of expenses for the test year and an explanation of the increases
264 from the 2007 expense levels to the test year forecasted levels.

265 Q. Did you note the adjustment to the Company's Customer Records and
266 Collections Expenses proposed by AG/CUB witness Efron which was not
267 accepted by the Company?

268 A. Yes.

269 Q. Do you support Mr. Efron's proposed adjustment?

270 A. No. Mr. Efron's proposed adjustment is based on his projection of an expected
271 increase from "normal inflation and system growth" after adding \$1,400,000 to
272 allow for the additional costs of billing every customer every month to the actual

273 2007 expense. Mr. Effron projected an increase because he did not think that
274 the Company had adequately explained the entire forecasted increase (AG/CUB
275 Ex. 1.0).

276 During our field visit, the Company provided me with an analysis of their
277 proposed increases to Customer Records and Collections Expenses. We
278 discussed the various increases such as the higher cost of gasoline; redesigning
279 bills and additional postage for billing each customer each month; additional staff,
280 expense and fees for collections and analysis; and the expense associated with
281 the Company's attempt to reduce revenue lag by 10 days. After reviewing the
282 analysis provided by the Company and discussing it with the representatives, I
283 did not determine that an adjustment to Customer Records and Collections
284 Expenses was necessary.

285 Q. Do you disagree with the method by which Mr. Effron calculated his proposed
286 adjustment?

287 A. No. Without the additional analysis provided by the Company, I would have likely
288 proposed a similar adjustment.

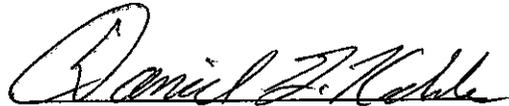
289 Conclusion

290 Q. Does this conclude your prepared rebuttal testimony?

291 A. Yes.

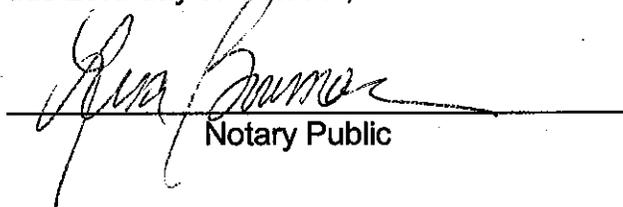
VERIFICATION

I, Daniel G. Kahle, being first duly sworn, depose and state that I am an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Rebuttal Testimony of Daniel G. Kahle; that I have personal knowledge of the information stated in the foregoing Rebuttal Testimony; and that such information is true and correct to the best of my knowledge, information and belief.



Daniel G. Kahle
Accountant
Illinois Commerce Commission

Subscribed and sworn to before me
this 23rd day of October, 2008.


Notary Public

Prime 90300

2007 Expense				\$ MM	
	<u>2007</u>	<u>2009</u>	<u>Change</u>	<u>Explanation</u>	30.10
1 90300 55205/55206	2.01	2.25	0.24	Added headcount (2)	0.24
2 90300 97210/97211	1.21	1.62	0.41	Added 2 for credit reporting and credit analysis Added 3 for increased cust due to non-payment	0.41
3 90300 91483	0.34	0.81	0.47	Higher court fees (credit) and and lower NSF check refunds	0.47
4 90300 91180	1.17	2.67	1.50	See DR DLH 2-09 - IBT CC 2008 Rate impact (0.8) 2009 Volume impact (0.7)	1.50
5 90300 91207/91055 91202/91210	6.76	6.9	0.14	Intra-account reclass	0.14
6 90300 91188	6.9	9.2	2.30	BECER (1.5) and postage rate increases (0.8)	2.30
7 90300 91143/91885	0.6	1.02	0.42	DSO Project Mgmt	0.42
8 90300 91191	0.95	1.33	0.38	Stationary increase due to new bill design and BECER	0.38
9 90300 97115	1.84	2.52	0.68	Vehicle cost allocation up on higher fuel costs mostly	0.68
Other Misc					1.00
2009 Forecast					<u>37.64</u>

90300 - 91180

Cust Req & Inquiry Exit Call C

Customer Request and Inquiry Exit Call Center = contractor costs

Note: 90300 91202 collects similar costs for employees

		2006	2007	2008	2009
		Actuals	Actuals	Budget	Budget
prime90300	58530 Oper T-On After T-Off Non-Pay	314,440	0	0	0
prime90300	55205 Dispatch - Central	1,133,059	1,222,714	1,179,105	1,238,934
prime90300	55206 Dispatch Central - Volunteers	560,004	789,596	929,615	1,017,183
prime90300	20530 Fld Ops T-On Aft T-Off Npay	0	(2,618)	55,844	56,748
prime90300	21530 Fld Ops T-On Aft T-Off Npay	0	60,347	90,875	96,249
prime90300	22530 Fld Ops T-On Aft T-Off Npay	0	27,393	29,000	29,942
prime90300	23530 Fld Ops T-On Aft T-Off Npay	0	40,152	(15,318)	(15,847)
prime90300	24530 Fld Ops T-On Aft T-Off Npay	0	25,152	60,268	61,575
prime90300	25530 Fld Ops T-On Aft T-Off Npay	0	34,886	76,687	79,180
prime90300	27530 Fld Ops T-On Aft T-Off Npay	0	132,665	225,130	231,384
prime90300	28530 Fld Ops T-On Aft T-Off Npay	0	77,992	55,716	56,747
prime90300	56103 Dispatch To CWIP-Cr	(82,249)	(100,615)	(105,436)	(112,806)
prime90300	41530 Cart T-On aft T-Off-NoPymt	3,568	8,490	2,657	2,741
prime90300	41501 Cart Office Superv & Gen	49,915	51,595	54,361	55,574
prime90300	97210 CCS Credit Collections Admin	79,968	98,411	158,508	225,822
prime90300	97211 Collection Activities	1,118,412	1,109,788	1,178,678	1,392,762
prime90300	59528 Unauth Use of Gas Region 1	(2,860)	0	0	0
prime90300	63528 Unauth Use of Gas Region 2	(3,002)	0	0	0
prime90300	64528 Unauth Use of Gas Region 3	(2,439)	0	0	0
prime90300	65528 Unauth Use of Gas Region 4	(13,083)	0	0	0
prime90300	59529 Turn Off Services Region 1	81,116	0	0	0
prime90300	63529 Turn Off Services Region 2	7,781	0	0	0
prime90300	64529 Turn Off Services Region 3	12	0	0	0
prime90300	65529 Turn Off Services Region 4	4,025	338	0	0
prime90300	91385 Remittance Processing	1,494,619	1,516,318	1,666,431	1,685,128
prime90300	91515 Collection Agencies	1,448,876	1,285,806	1,357,917	1,371,404
prime90300	91383 Admin	1,135,318	1,606,108	1,595,624	1,586,204
prime90300	91177 Billing QA Field Activities	940,829	1,106,737	786,682	1,094,823
prime90300	91395 Customer Contracts	190,329	187,802	231,866	313,467
prime90300	91038 Projects Posting	165,529	243,780	394,000	456,000
prime90300	91483 CCS Credit Admin	349,313	343,007	539,039	807,770
prime90300	91055 Call Center Admin	605,425	561,051	651,838	673,467
prime90300	91210 CCS Quality Development	735,864	1,009,453	347,376	344,053
prime90300	91202 Cust Req & Inquiry	5,532,040	5,174,276	5,104,793	5,419,945
prime90300	91180 Cust Req & Inquiry Exlt Call C	1,195,762	1,169,424	1,986,945	2,666,405
prime90300	91178 Correspondence	623,684	520,760	585,835	595,331
prime90300	91207 Customer Care Training	0	0	439,885	487,828
prime90300	91144 Billing QA Admin	1,402,145	1,318,575	1,380,384	1,557,411
prime90300	91141 BQA Workdown Project	0	42,294	0	0
prime90300	93170 Forms-Envelopes	36,076	47,199	46,500	48,780
prime90300	93190 Forms-Obsolete	5,459	3,465	6,600	6,600
prime90300	91171 Postage-Refund Drafts	28,728	44,913	45,000	45,000
prime90300	91188 Postage-Customer Records	6,451,208	6,882,620	8,443,685	9,180,461
prime90300	91169 Forms & Fiche Customer	36,556	16,223	13,200	13,200
prime90300	91191 Customer Records	1,002,756	950,742	1,147,066	1,329,458
prime90300	91885 DSO Project	0	0	202,550	210,044
prime90300	91143 Gas Trans Bill Services	390,364	612,116	760,165	816,655
prime90300	91035 Skip Tracing	88	120	0	0
prime90300	91185 Data Entry-Customer	8,835	0	0	0
prime90300	93303 Collections Other	752	0	0	0
prime90300	97115 ICC Reclass To/From 90300	3,097,071	1,842,440	2,307,086	2,521,746
prime90300	iccActivity	30,126,292	30,061,515	34,016,157	37,647,366
prime90400	93293 Provision for Uncollectibles	38,058,000	52,973,824	57,940,000	68,311,000
prime90400	iccActivity	38,058,000	52,973,824	57,940,000	68,311,000

Northern Illinois Gas Company
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Company	Adjustments	Company
		Direct Case Pro Forma Present (Co. Sch. C-1)	(Co. Ex. 26.1, Rev. Sch. C-1)	Rebuttal Case Pro Forma Present Adjusted (Co. Ex. 26.1, Rev. Sch. C-1)
	(a)	(b)	(c)	(d)
1	Base Rates Revenues	\$ 547,280	\$ -	\$ 547,280
2	PGA Revenues	-	-	-
3	ECR Revenues (Coal Tar)	-	-	-
4	Other Revenues	20,304	-	20,304
5	Total Operating Revenue	567,584	-	567,584
6	Uncollectibles Expense	68,311	-	68,311
7	Cost of Gas	1,371	-	1,371
8	Storage	32,789	-	32,789
9	Transmission	5,110	-	5,110
10	Distribution	55,691	-	55,691
11	Customer Accounts	45,189	-	45,189
12	Customer Services and Informational Services	631	-	631
13	Sales	416	-	416
14	Administrative and General	97,294	2,714	100,008
15	Depreciation	178,400	58	178,458
16	Taxes Other Than Income	20,125	126	20,251
17	Total Operating Expense			
18	Before Income Taxes	505,327	2,898	508,225
19	State Income Tax	294	239	533
20	Federal Income Tax	12,538	1,054	13,592
21	Deferred Taxes and ITCs Net	(10,055)	(2,442)	(12,497)
22	Total Operating Expenses	508,104	1,749	509,853
23	NET OPERATING INCOME	\$ 59,480	\$ (1,749)	\$ 57,731

Northern Illinois Gas Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Interest Synchronization (Sch. 14.05)	Uncollectibles Expense (Sch. 15.02)	Incentive Compensation (Sch. 15.03)	Invested Capital Tax (Sch. 15.04)	Rate Case Expense (Sch. 16.01)	Charitable Contributions (Sch. 16.02)	(Source)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rates Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	ECR Revenues (Coal Tar)	-	-	-	-	-	-	-	-
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	-	-	-	-	-	-	-	-
6	Uncollectibles Expense	-	(6,981)	-	-	-	-	-	(6,981)
7	Cost of Gas	-	-	-	-	-	-	-	-
8	Storage	-	-	-	-	-	-	-	-
9	Transmission	-	-	-	-	-	-	-	-
10	Distribution	-	-	-	-	-	-	-	-
11	Customer Accounts	-	-	-	-	-	-	-	-
12	Customer Services and Informational Services	-	-	-	-	-	-	-	-
13	Sales	-	-	-	-	-	-	-	-
14	Administrative and General	-	-	(378)	-	(529)	(320)	-	(1,227)
15	Depreciation	-	-	-	-	-	-	-	-
16	Taxes Other Than Income	-	-	(29)	(371)	-	-	-	(400)
17	Total Operating Expense	-	(6,981)	(407)	(371)	(529)	(320)	-	(8,608)
18	Before Income Taxes	-	(6,981)	(407)	(371)	(529)	(320)	-	(8,608)
19	State Income Tax	472	510	30	27	39	23	-	1,101
20	Federal Income Tax	2,096	2,265	132	120	172	104	-	4,889
21	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
22	Total Operating Expenses	2,568	(4,206)	(245)	(224)	(318)	(193)	-	(2,618)
23	NET OPERATING INCOME	\$ (2,568)	\$ 4,206	\$ 245	\$ 224	\$ 318	\$ 193	\$ -	\$ 2,618

Northern Illinois Gas Company
Adjustments to Operating Income
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	(Source)	2009 Plant Additions (Sch. 17.01)	2008 & 2009 Estimated Plant Additions (Sch. 17.02)	(Source)	(Source)	Miscellaneous Expense (Sch. 15.05)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Base Rates Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	PGA Revenues	-	-	-	-	-	-	-	-
3	ECR Revenues (Coal Tar)	-	-	-	-	-	-	-	-
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	-	-	-	-	-	-	-	-
6	Uncollectibles Expense	(6,981)	-	-	-	-	-	-	(6,981)
7	Cost of Gas	-	-	-	-	-	-	-	-
8	Storage	-	-	-	-	-	-	-	-
9	Transmission	-	-	-	-	-	-	-	-
10	Distribution	-	-	-	-	-	-	-	-
11	Customer Accounts	-	-	-	-	-	-	(588)	(588)
12	Customer Services and Informational Services	-	-	-	-	-	-	-	-
13	Sales	-	-	-	-	-	-	-	-
14	Administrative and General	(1,227)	-	-	-	-	-	-	(1,227)
15	Depreciation	-	-	(387)	(357)	-	-	-	(744)
16	Taxes Other Than Income	(400)	-	-	-	-	-	-	(400)
17	Total Operating Expense	-	-	-	-	-	-	-	-
18	Before Income Taxes	(8,608)	-	(387)	(357)	-	-	(588)	(9,940)
19	State Income Tax	1,101	-	28	26	-	-	43	1,198
20	Federal Income Tax	4,889	-	126	116	-	-	191	5,322
21	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
22	Total Operating Expenses	(2,618)	-	(233)	(215)	-	-	(354)	(3,420)
23	NET OPERATING INCOME	\$ 2,618	\$ -	\$ 233	\$ 215	\$ -	\$ -	\$ 354	\$ 3,420

Northern Illinois Gas Company
Rate Base
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Company Rebuttal Case Pro Forma Rate Base (Sch. 10.03, p. 2)	Staff Adjustments (Sch. 14.04)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	\$ 4,481,874	\$ (18,175)	\$ 4,463,699
2	Accumulated Provision for Depreciation and Amortization	(2,694,454)	495	(2,693,959)
3	-	-	-	-
4	Net Plant	1,787,420	(17,680)	1,769,740
5	Additions to Rate Base			
6	Cash Working Capital	87,544	(25,055)	62,489
7	Materials and Supplies	5,634	-	5,634
8	Gas in Storage	95,645	-	95,645
9	Retirement Benefits, Net	94,543	(231,625)	(137,082)
10	-	-	-	-
11	-	-	-	-
12	Deductions From Rate Base			
13	Construction Work in Progress Subject to AFUDC	(9,232)	-	(9,232)
14	Accumulated Deferred Income Taxes	(272,478)	89,020	(183,458)
15	Customer Deposits	(38,644)	-	(38,644)
16	Budget Payment Plan Balances	(160,582)	-	(160,582)
17	Regulatory Tax Liability	(45,237)	-	(45,237)
18	Investment Tax Credits	(11,334)	-	(11,334)
19	Reserve for Injuries and Damages	(883)	-	(883)
20	Customer Advances for Construction	(10,239)	-	(10,239)
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 1,522,157</u>	<u>\$ (185,340)</u>	<u>\$ 1,336,817</u>

Northern Illinois Gas Company
Rate Base
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Company Direct Case Pro Forma Rate Base (Co. Sch. B-1)	Adjustments (Co. Ex. 26.1, Rev. Sch. B-1)	Company Rebuttal Case Pro Forma Rate Base (Co. Ex. 26.1, Rev. Sch. B-1)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	\$ 4,480,550	\$ 1,324	\$ 4,481,874
2	Accumulated Provision for Depreciation and Amortization	(2,694,425)	(29)	(2,694,454)
3	-	-	-	-
4	Net Plant	1,786,125	1,295	1,787,420
5	Additions to Rate Base			
6	Cash Working Capital	99,138	(11,594)	87,544
7	Materials and Supplies	5,634	-	5,634
8	Gas in Storage	95,645	-	95,645
9	Retirement Benefits, Net	98,929	(4,386)	94,543
10	-	-	-	-
11	-	-	-	-
12	Deductions From Rate Base			
13	Construction Work in Progress Subject to AFUDC	(9,232)	-	(9,232)
14	Accumulated Deferred Income Taxes	(273,699)	1,221	(272,478)
15	Customer Deposits	(38,644)	-	(38,644)
16	Budget Payment Plan Balances	(160,582)	-	(160,582)
17	Regulatory Tax Liability	(45,237)	-	(45,237)
18	Investment Tax Credits	(11,334)	-	(11,334)
19	Reserve for Injuries and Damages	(883)	-	(883)
20	Customer Advances for Construction	(10,239)	-	(10,239)
21	-	-	-	-
22	-	-	-	-
23	Rate Base	<u>\$ 1,535,621</u>	<u>\$ (13,464)</u>	<u>\$ 1,522,157</u>

Northern Illinois Gas Company
Adjustments to Rate Base
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Cash Working Capital (Sch. 14.07)	Pension Asset (Sch. 15.01)	Incentive Compensation (Sch. 15.03)	2009 Plant Additions (Sch. 17.01)	2008 & 2009 Estimated Plant Additions (Sch. 17.02)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant	\$ -	\$ -	\$ (15)	\$ (9,450)	\$ (8,710)	\$ -	\$ -	\$ (18,175)
2	Accumulated Provision for Depreciation and Amortization	-	-	-	194	301	-	-	495
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(15)	(9,256)	(8,409)	-	-	(17,680)
5	Additions to Rate Base								
6	Cash Working Capital	(25,055)	-	-	-	-	-	-	(25,055)
7	Materials and Supplies	-	-	-	-	-	-	-	-
8	Gas in Storage	-	-	-	-	-	-	-	-
9	Retirement Benefits, Net	-	(231,625)	-	-	-	-	-	(231,625)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12	Deductions From Rate Base								
13	Construction Work in Progress Subject to AFUDC	-	-	-	-	-	-	-	-
14	Accumulated Deferred Income Taxes	-	90,101	-	33	(1,114)	-	-	89,020
15	Customer Deposits	-	-	-	-	-	-	-	-
16	Budget Payment Plan Balances	-	-	-	-	-	-	-	-
17	Regulatory Tax Liability	-	-	-	-	-	-	-	-
18	Investment Tax Credits	-	-	-	-	-	-	-	-
19	Reserve for Injuries and Damages	-	-	-	-	-	-	-	-
20	Customer Advances for Construction	-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (25,055)</u>	<u>\$ (141,524)</u>	<u>\$ (15)</u>	<u>\$ (9,223)</u>	<u>\$ (9,523)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (185,340)</u>

Northern Illinois Gas Company
 Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No.	Description (a)	Amount (b)
1	Gross Utility Plant	\$ 1,336,817 ⁽¹⁾
2	Weighted Cost of Debt	<u>2.85%</u> ⁽²⁾
3	Synchronized Interest Per Staff (Line 1 x Line 2)	38,139
4	Company Interest Expense	<u>44,599</u> ⁽³⁾
5	Increase (Decrease) in Interest Expense	<u>\$ (6,460)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ 472</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 2,096</u>

(1) Source: Staff Ex. 14.0, Schedule 14.03, Column (d), Line 23.

(2) Source: Staff Ex. 18.0, Schedule 18.01

(3) Source: Co. Ex. 26.1, Sch. 1.01, Line 3

Northern Illinois Gas Company
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles (1)	2.0200%	<u>0.020200</u>	
3	State Taxable Income		0.979800	
4	State Income Tax	7.3000%	<u>0.071525</u>	<u>0.073000</u>
5	Federal Taxable Income		<u>0.908275</u>	<u>0.927000</u>
6	Federal Income Tax	35.0000%	<u>0.317896</u>	<u>0.324450</u>
7	Operating Income		<u>0.590379</u>	<u>0.602550</u>
8	Gross Revenue Conversion Factor Per Staff (Line 1 / Line 7)		<u>1.693827</u>	<u>1.659613</u>

(1) Source: Staff Ex. 15.0, Schedule 15.02

Northern Illinois Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

Line (a)	Item (b)	Amount (c)	Lag (Lead) (d)	CWC Factor (e) (D/365)	CWC Requirement (f) (C*E)	Column C Source (g)
1	Base Rates Revenues	\$ 2,624,338	50.810	0.13921	\$ 365,322	Staff Ex. 14.0, Sch. 14.07, p. 2, Column c, Line 7
2	Pass-Through Taxes	164,757	0.000	0.00000	-	Line 12 + Line 14 + Line 16 + Line 17
3	Energy Assistance Charges	20,892	0.000	0.00000	-	Co. Ex. 23.1, Column D, Line 20
4	Other Revenues	-	0.000	0.00000	-	Staff Ex. 14.0, Sch. 14.01, Column i, Line 4
5	Total Receipts	<u>\$ 2,809,987</u>				Sum Lines 1 through 4
6	Employee Benefits	\$ 24,671	(17.357)	(0.04755)	(1,173)	Co. Ex. 23.1, Column D, Line 10
7	Payroll and withholdings	97,167	(11.893)	(0.03258)	(3,166)	Staff Ex. 14.0, Sch. 14.07, Page 3, Column c, Line 5
8	Federal Insurance Contributions (FICA)	8,017	(12.714)	(0.03483)	(279)	Staff Ex. 14.0, Sch. 14.07, Page 3, Column c, Line 9
9	Natural Gas Purchases	2,294,374	(40.151)	(0.11000)	(252,390)	Co. Ex. 23.1, Column D, Line 13
10	Other Operations and Maintenance	108,164	(49.39)	(0.13530)	(14,635)	Staff Ex. 14.0, Sch. 14.07, Page 2, Column c, Line 20
11	Federal Unemployment Tax	115	(75.709)	(0.20742)	(24)	Co. Ex. 23.1, Column D, Line 15
12	State Unemployment Tax	471	(82.171)	(0.22513)	(106)	Co. Ex. 23.1, Column D, Line 16
13	IL Public Utility Tax	2,741	(62.050)	(0.17000)	(466)	Co. Ex. 23.1, Column D, Line 17
14	Invested Capital Tax	8,653	(30.119)	(0.08252)	(714)	Staff Ex. 14.0, Sch. 14.07, Page 3, Column c, Line 13
15	Gross Receipts/Municipal Utility Tax	66,540	(45.625)	(0.12500)	(8,318)	Co. Ex. 23.1, Column D, Line 19
16	Corporation Franchise Tax	131	(188.925)	(0.51760)	(68)	Co. Ex. 23.1, Column D, Line 20
17	Illinois Gas Use Tax	26,949	(5.167)	(0.01415)	(381)	Co. Ex. 23.1, Column D, Line 21
18	Illinois Gas Revenue Tax	68,527	(5.788)	(0.01586)	(1,087)	Co. Ex. 23.1, Column D, Line 22
19	Property/Real Estate Tax	3,024	(384.851)	(1.05439)	(3,188)	Co. Ex. 23.1, Column D, Line 23
20	Interest Expense	38,139	(91.584)	(0.25091)	(9,570)	Staff Ex. 14.0, Sch. 14.05, Column b, Line 3
21	Federal Income Tax	38,861	(41.392)	(0.11340)	(4,407)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 20
22	State Income Tax	6,219	(41.094)	(0.11259)	(700)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 19
23	Inter-Company Billings	(2,626)	(34.209)	(0.09372)	246	Co. Ex. 23.1, Column D, Line 27
24	Energy Assistance Charges	20,892	(42.050)	(0.11521)	(2,407)	Co. Ex. 23.1, Column D, Line 20
25	Total Outlays	<u>\$ 2,811,029</u>				Sum of Lines 6 through 24
26	Cash Working Capital per Staff				\$ 62,489	Sum of Lines 1 through 24
27	Cash Working Capital per Company				87,544	Co. Ex. 11.1, page 8 of 46, Column H, Line 5
28	Difference -- Staff Adjustment				<u>\$ (25,055)</u>	Line 26 less Line 27

Northern Illinois Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

<u>Line</u>	<u>Revenues</u>	<u>Amount</u>	<u>Source</u>
(a)	(b)	(c)	(d)
1	Total Operating Revenues	\$ 630,331	Staff Ex. 14.0, Sch. 14.01, Column i, Line 5
2	PGA Revenues	2,294,374	Co. Ex. 23.1, Column D, Line 13
3	ECR Revenues (Coal Tar)	-	Co. Ex. 11.1, p. 27, line 4
4	Uncollectibles Expense	(62,598)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 6
5	Depreciation & Amortization	(177,714)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 15
6	Return on Equity	(60,055)	Line 10 below
7	Total Operating Revenues for CWC Calculation	<u>\$ 2,624,338</u>	Sum of Lines 1 through 6
8	Total Rate Base	\$ 1,336,817	Staff Ex. 14.0, Sch. 14.03, Column d, Line 23
9	Weighted Cost of Capital	4.49%	Staff Ex. 18.0, Schedule 18.01
10	Return on Equity	<u>\$ 60,055</u>	Line 8 times Line 9
11	Operating Expense Before Income Taxes	\$ 499,553	Staff Ex. 14.0, Sch. 14.01, Column i, Line 18
12	Depreciation & Amortization	(177,714)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 15
13	Uncollectibles Expense	(62,598)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 6
14	Employee Benefits Expense	(24,671)	Co. Ex. 23.1, Column D, Line 10
15	Payroll and withholdings	(97,167)	Staff Ex. 14.0, Sch. 14.09, page 3, Column c, Line 5
16	FICA Expense	(8,017)	Staff Ex. 14.0, Sch. 14.09, page 3, Column c, Line 9
17	Cost of Gas	(1,371)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 7
18	Taxes Other Than Income	(19,851)	Staff Ex. 14.0, Sch. 14.01, Column i, Line 16
19			
20	Other Operations & Maintenance for CWC Calculation	<u>\$ 108,164</u>	Sum of Lines 11 through 19

Northern Illinois Gas Company
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2009
(In Thousands)

<u>Line</u> (a)	<u>Description</u> (b)	<u>Amount</u> (c)	<u>Source</u> (d)
1	Direct Payroll per Company Filing	\$ 97,545	Co. Ex. 23.1, Column D, Line 11
2		-	
3		-	
4	Adjustment for Incentive Compensation	<u>(378)</u>	Staff Ex. 15.03, Line 3
5	Direct Payroll per Staff	<u>\$ 97,167</u>	Sum of Lines 1 through 4
6	FICA Tax per Company Filing	\$ 8,046	Co. Ex. 23.1, Column D, Line 12
7		-	
8	Incentive Compensation Adjustment	<u>(29)</u>	Staff Ex. 15.03, Line 6
9	FICA Tax per Staff	<u>\$ 8,017</u>	Sum of Lines 6 through 8
10	Invested Capital Tax per Company Filing	\$ 8,360	Co. Ex. 23.1, Column D, Line 18
11		-	
12	Invested Capital Tax Adjustment	<u>293</u>	Staff Ex. 15.04, Line 7
13	Invested Capital Tax per Staff	<u>\$ 8,653</u>	Sum of Lines 6 through 8